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SIPDIS

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SUBJECT: AUSTRIAN CHANCELLOR SCHUESSEL CALLS FOR AN EU
TAX ON FINANCIAL TRANSACTIONS

Summary

1. Austrian Chancellor Wolfgang Schuessel has proposed an EU-wide tax on financial cross-border transactions. Schuessel said he believes the tax would provide increased financial autonomy for the EU's budget and close the unresolved financing gap in the 2007-2013 financial framework. Despite overwhelming support across Austria's political spectrum, the proposal appears to be a non-starter. Schuessel has no plans to press the financial tax during Austria's EU Presidency in the first half of 2006. However, Schuessel stated that he hopes discussion of a financial transactions tax would encourage the European Commission to put forward such a proposal. End Summary.

Chancellor Proposes EU Tax on Financial Transactions

2. During a July 10 press interview, Austrian Chancellor Wolfgang Schuessel proposed an EU-wide tax on financial cross-border transactions, without elaborating on details. He claimed the tax would provide the EU with an autonomous source of revenue and defuse tensions among Member States regarding budget financing. In a July 12 cabinet meeting, Schuessel reportedly noted that the new tax would cover only a fraction of EU budget revenues, but could close the gap between the budgetary proposals of net contributors and the Commission. According to Schuessel, Austria would not initiate such a proposal during its EU Presidency the first half of 2006. However, Schuessel said he hopes that discussion of a financial transactions tax could motivate the Commission to put forward such a proposal.

Mixed Reactions

3. The junior partner in the governing coalition, the Alliance Future Austria (BZO), publicly supported Schuessel's idea, as did the opposition Social Democrats (SPO) and Green parties. BZO Chairman Joerg Haider claimed that such a tax would reduce speculation and yield Euro 20-25 billion annually. SPO Chairman Alfred Gusenbauer opined that the tax would signal a necessary turn-around in EU policies and an acknowledgement that the era of "cold neo-liberalism" is over. The Austrian Industrialists Association spoke out against the tax, noting the negative consequences on London and other EU financial centers. Schuessel's economic policy advisor Claus Raidl, CEO of Boehler-Uddeholm Company, admitted the proposed tax would only be feasible in a global context, particularly with U.S. and Japanese participation. Alfred Finz, State Secretary in the Finance Ministry, maintained the tax would divert financial transactions away from Europe.

Comment

4. Schuessel's proposal seems to be a non-starter because of the negative impact on European finance centers and the reduction in the potential tax base, as financial transactions migrate away from Europe. The GoA believes it will have to solve the 2007-2013 financial framework problem during its presidency. Schuessel's idea is thus most likely an attempt to stimulate discussion following the failure of the Council to reach an agreement on the financial framework.

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